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THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: November 1, 1994

TO: Mr. Masood Ahmed, Director, IEC

FROM: R. P. Brigish, Adviser, IEC

EXTENSION: 33868

SUBJECT: The Paris Club--October 26-28, 1994: Back-to-Office Report

1. The meeting was primarily concerned with SILIC debt, and in particular how to implement debt stock reduction in deserving cases. It also considered a paper tabled by the British delegation proposing substantial changes in Paris Club press releases and other mechanisms to expand the information about rescheduling results that is to be made available to the public. Also discussed was a Swiss proposal to increase the limit on debt swaps in certain cases. The results of these discussions are summarized in this memorandum. Finally, there was a somewhat cursory tour d'horizon which discussed: Cambodia, Egypt, Gabon, Gambia, Ghana, Guatemala, Guinea-Bissau, Honduras, Nicaragua, Nigeria, Russia, Syria, Tanzania, Togo, Ukraine, Venezuela, Vietnam, the former Yugoslavia and Zambia. Country pages containing the results of the tour are attached hereto.

SILIC Debt

2. Although details are still to be worked out at the next meeting, creditors have essentially agreed that most SILICs will receive a 67% reduction in the stock of debt owed to the Paris Club. The conditions are: (i) a satisfactory track record with both the Paris Club and the IMF; (ii) sufficient confidence in the country's ability to respect the debt agreement (i.e. such that it will be an exit arrangement); and (iii) the country should demonstrate **ONE** of the following attributes, namely, per capita incomes below $300, a proportion of ODA to non-concessional pre-cut-off date Paris Club debt of 15% or less, and a debt/exports ratio (NPV basis) of 350 or higher. An appendix to this memorandum shows the list of countries that fall above or below the benchmarks mentioned in (iii). For SILICs not meeting these criteria, a 50% reduction will be accorded. For countries approaching the Paris Club in the near future, and whose track record has not yet reached three years, a conventional rescheduling of maturities will be accorded, though at 67% for countries meeting the criteria in iii) above, with 50% for others.

3. It has also been accepted in principle that debt previously rescheduled under enhanced concessions can be included in the stock reduction operation, although it is not yet agreed that these amounts fall within the 67% reduction calculation, or are to be

in addition. The need to capitalize moratorium interest for the years immediately following a stock reduction operation was accepted. Cut-off dates should not be moved.

4. Left undecided for the present are: i) whether the Paris Club can hold out the promise that, in very deserving cases, the reduction percentage can be increased to 80%. (Even though there is opposition to this proposition, many creditors want it left in the Chairman's Summary. It has been left to Japan, Italy, Belgium and Spain to decide whether they can accept it in the event that a future consensus were to emerge among creditors to accord reductions greater than 67%); ii) the definition of *de minimus* in stock operations, the level of exposure that would release those creditors under it from the Paris Club consensus; iii) the design of the non-concessional option.

5. The last-mentioned item is noteworthy in that it produced considerable acrimony during the meeting, with some creditors saying openly that unless positions changed, the entire agreement could unravel. Some delegations said that they could not participate in stock operations in certain countries for budgetary or other reasons, and would therefore need in those instances to resort to another option. Other creditors responded that they would accept a non-concessional option only if full financial equivalence to the debt reduction option could be achieved. This would imply a 70-year maturity period in a rescheduling, including 40 years of grace, during which all interest would be capitalized, an alternative considered unpalatable to many. No viable proposition is as yet on the table.

6. Another two-day methodology session has been scheduled for the week of November 14, 1994 to attempt to come to closure on the undecided items.

Paris Club Press Releases

7. The British proposal is attached. There was disagreement both on the need to expand the current version (which reads like a laconic version of the agreed minute), and on who the audience was meant to be for these releases. In recognition also of the desirability of having the debtor country involved in such a discussion, it was decided to try to design a new press release after the next rescheduling negotiation.

Debt Swaps

8. Switzerland, whose proposal is also attached, said it wished to exceed the current 10% level in Egypt and Bulgaria. Creditors generally agreed in principle, although they wanted to see an analysis of the incidence of debt swaps under past Paris Club agreements before agreeing to a revised limit. The Secretariat will conduct such an analysis and clear it with the Bank and the Fund.

Attachment

cc Messrs/Mmes (w/attachments): Baird (DECVP); Bhattacharya (FRSCR); Reyes (IECDF); Guerard (AFRCE); Katz (AFTPS); Rosenberg (AFRVP); Marshall, Pomerantz (AF1); Colaco, Carter (AF2); Aguirre-Sacasa, Chevallier (AF3); Lafourcade, Okonjo-Iweala (AF4); Fredriksen, Sarbib (AF5); Madavo, Ikram (EA1); Wiehen, Poortman (EC1); Cheetham, Huang (EC3); Kavalsky, Grais (EC4); Segura, Dowsett-Coirolo (LA2); Chopra, Voyadzis (MN2); Institutional ISC

cc Messrs/Mmes. (w/Appendix only): Karaosmanoglu, Sandstrom, Stern, (EXC); Bruno (DECVP); Jaycox, (AFRVP); Kaji, Husain (EAPVP); Koch-Weser , Page (MNAVP); Wood, Salop (SASVP); Thalwitz, Selowsky (ECAVP), Burki, Edwards (LACVP); Linn (FPRVP);Fukui (CFSVP); Nishimizu (FRSDR); Gelb (PRDTE); Donovan (FRMDR); Kanbur (AFRCE); Lav (FRMRO); Pfeffermann (CEIED); Malloch Brown (EXTDR); Handwerger, Wyss (Field Office, Paris) Johannes, Jun (IECIF); IEC Division Chiefs

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HM Treasury

Parliament Street
London SW1P 3AG
Telephone 071-270 4479

To be discussed in October.

Jamie Mortimer
Under Secretary

Bertrand de Mazieres Esq
Ministry of Finance
Paris

Dear Bertrand

PARIS CLUB PRESS RELEASES

I do not know whether you want to discuss this subject next week. But we have been giving some thought here as to how Paris Club press releases might be improved. Our ideas are contained in the attached discussion paper. If this subject is to be discussed next week, you may wish to circulate copies of the discussion paper at the meeting.

Yours sincerely
Jamie Mortimer

J E MORTIMER

DISCUSSION PAPER: PARIS CLUB PRESS RELEASES

PURPOSE

1 To assist the review of Paris Club press releases at the Paris Club meeting to be held during the week commencing Monday 19 September 1994.

RECOMMENDATIONS

2 The press release should be more user-friendly.

3 It should be produced on a Paris Club letter head, with an address and telephone/fax number, and a date.

4 There should be a concise main heading which encapsulates the story.

5 Only plain language should be used, with no jargon.

6 The notice should follow a more logical sequence. The first paragraph should contain the main facts, followed by an explanation as to what the agreement does and how this came about, and conclude with a reaction from the delegation of the debtor country (perhaps by way of a formal quotation).

7 Only items of news should be contained in the main body of the press release; other items which are not actual news but which may be of interest should form part of "Notes for Editors" at the foot of the notice.

8 The following should be included in the "Notes for Editors":–

8.1 a couple of lines explaining when the Paris Club was formed and what it does,

8.2 (subject to the debtor country agreeing) details of the debtor country's previous experience with the Paris Club, and the amount of debt affected by the current re-organisation.

8.3 details of the types of debt swaps and the date of approval of the IMF program, and

8.4 lists of participating countries and observers, and names of the head of the debtor country's delegation and the person chairing the meeting.

9 The foot of the press release should contain a contact name and telephone number.

10 The current format (see, for example, the June 1994 press release for the Republic of Congo, at Annex A) should be replaced by a revised version along the lines of Annex B.

OBSERVATIONS

11 The current press release gives the appearance of being simply part of the Agreed Minute, rather than a means of communicating information to the world's press; it is not "user–friendly".

12 The current version is merely printed on plain paper without any indication of its source and, therefore, lacks authenticity.

13 The press release fails to immediately attract the reader's attention; indeed, in Annex A three paragraphs have to be read before the main point is reached.

14 Phrases such as "hereinafter referred to as" and definitions such as "Participating Creditor Countries" are not appropriate to a press notice and do not assist in getting the message across; this is best achieved by using jargan–free plain language.

15 The present notice provides a lot of details but it does not seem to follow a logical sequence – some re–arrangement is necessary.

16 News items, which should form part of the main part of the press notice, are mixed up with background and additional information which would be best kept separate as "Notes to Editors" at the foot of the notice.

17 Annex A does not provide a journalist with a contact point for checking – or seeking further – details.

18 These observations have followed an analysis of the example press release at Annex A. The recommended revision at Annex B, which incorporates the recommendations in this Paper, can easily be adapted for any country.

ECGD/IDD
September 1994

ANNEX A

PRESS RELEASE

Representatives of the Governments of Belgium, Brazil, Canada, Denmark, France, Germany, Italy, Spain, Switzerland, the United Kingdom and the United States of America hereinafter referred to as "Participating Creditor Countries", met in Paris on June 30, 1994 with the representatives of the Government of the Republic of Congo, in order to examine the request to alleviate that country's external debt service burden.

Observers of the Governments of Japan and the Netherlands, as well as the International Monetary Fund, the International Bank for Reconstruction and Development, the African Development Bank, the Secretariat of the U.N.C.T.A.D. and the Organization for Economic Cooperation and Development also attended the meeting.

Representatives of the Participating Creditor Countries welcomed the efforts at economic recovery undertaken by the Government of the Republic of Congo. They noted with satisfaction the adoption by the Government of the Republic of Congo of an economic and financial program supported by a stand-by arrangement with the International Monetary Fund approved by the Executive Board of the Fund on May 27, 1994. They also noted that the Republic of Congo is a highly indebted lower middle income country and they thought it relevant to make a positive contribution to the improvement of the Republic of Congo's external payments prospects in order to facilitate the recovery of its economy.

It is in this spirit that the representatives of the Participating Creditor Countries agreed to recommend to their respective Governments a major reorganization of the external debt of the Republic of Congo resulting from loans and guaranteed credits extended by Participating Creditor Countries to the Republic of Congo.

This reorganization applies to payments due on these debts. Repayment will be made by the Government of the Republic of Congo over a 20 year period as concerns the Official Development Aid loans and over a 15 year period including a grace period of 8 years as concerns other credits. On a voluntary basis, each creditor country may also undertake limited debt for nature, debt for aid, debt for equity swaps or other local currency debt swaps.

The delegation of the Republic of Congo was headed by Mr. Nguila MOUNGOUNGA-NKOMBO, Minister of Finance and Budget. The meeting was chaired by Mr. Bertrand de MAZIERES, Deputy Assistant Secretary for Aid and Debt Affairs at the Treasury at the Ministry of Economy.

The delegation of the Republic of Congo expressed its thanks to the Participating Creditor Countries of the Paris Club for their efforts in assisting the Republic of Congo to pursue the improvement of its economic and financial situation.

Annex B

[PARIS CLUB HEADED PAPER]

PRESS RELEASE

[PARIS CLUB ADDRESS AND TELEPHONE/FAX DETAILS]

30 June 1994

PARIS CLUB AGREES DEBT RESTRUCTURING FOR THE REPUBLIC OF CONGO

1 A major restructuring of the Republic of Congo's debts to Official Creditors has been agreed. The Paris Club met on 30 June 1994 and representatives of creditor countries agreed to recommend to their governments a re-organisation of some $1 billion of external debt.

2 This re-organisation applies to payments due under loans from, and credits guaranteed by, the Republic of Congo's official creditors.

3 The agreement provides for official development aid loans to be repaid by the Government of the Republic of Congo over 20 years; other credits will be repaid over 15 years (including 8 years grace). The agreement also enables each creditor country (on a voluntary basis) to undertake a limited amount of debt swaps.

4 The repayment terms were considered appropriate by the Paris Club as the Republic of Congo is a highly indebted lower middle income country and the Paris Club wished to make a positive contribution towards the improvement of the Republic of Congo's external payments prospects in order to facilitate the recovery of its economy.

5 The Paris Club agreement follows the Republic of Congo's efforts at economic recovery, particularly the adoption of an economic and financial program supported by a stand-by arrangement with the International Monetary Fund.

6 The delegation of the Republic of Congo expressed its thanks to the participating members of the Paris Club for their efforts in assisting them to pursue the improvement of the Republic of Congo's economic and financial situation.

Notes for Editors

1 The Paris Club was formed in 1956. It is an informal group of creditor governments mainly from the major industrialised (ie OECD) countries. It meets on a monthly basis with eligible debtor countries in order to restructure their debts.

2 The Republic of Congo has had its debts re-organised on two previous occasions: 18 July 1986 and 13 September 1990.

3 The Agreement provides for various debt swaps; these may include debt for nature, debt for aid, debt for equity swaps or other local currency swaps.

4 The IMF program was approved by the Executive Board of the Fund on 27 May 1994.

5 The members of the Paris Club which participated in the re-organisation were representatives of the Governments of: Belgium, Brazil, Canada, Denmark, France, Germany, Italy, Spain, Switzerland, the United Kingdom, and the United States of America.

6 Observers at the meeting were representatives of: the Governments of Japan and the Netherlands, the International Monetary Fund, the International Bank for Reconstruction and Development, the African Development Bank, the Secretariat of the United Nations Conference on Trade and Development, and the organisation for Economic Co-operation and Development.

7 The delegation of the Republic of Congo was headed by Mr Nguila Moungounga - Nkombo, Minister of Finance and Budget.

8 The meeting was chaired by Mr Bertrand de Mazieres, Deputy Assistant Secretary for Aid and Debt Affairs at the Treasury at the French Ministry of Economy.

Press Enquires: [Name of contact and telephone numbers] to be discussed in October.

Bern, September 16, 1994

Conversion of Paris Club Debt

A Swiss proposal

I. Introduction

The Paris Club introduced for Houston and Enhanced Toronto Terms the so called **10% clause** to allow creditor countries to swap 10% of their outstanding stock of claims. Swap arrangements were also part of the special agreements for Egypt and Poland, signed in the spring of 1991, and for Senegal under the original Toronto Terms. ODA debt can be swapped without limits, while for non-ODA debt up to US$10 million per country or 10 percent of eligible debt, whichever is the higher can be swapped.

Up to now a number of creditor countries have engaged in such **conversion actions**. In certain cases the national export credit agency (ECA) sold its claims at market price, including the uninsured part of the national exporter. The claim was sold to a third party, i.e. a private investor, which swapped the debt papers directly into equity of a privatized enterprise in the debtor country (debt for equity swap). Certain sales were realized to third parties in the framework of development projects or to private investors against an amount in local currency (debt for development swap or debt for local currency swap). If the final use of the local currency is not well defined a debt swap bears the risk of round tripping which should be avoided according to the conclusions of the Paris Club. The multilateral framework of the Paris Club is based on the principle of assuring equitable burden sharing among different groups of creditors and between individual creditors. The limitation of the Swap-clause to 10 percent is, largely motivated by this principle.

II. Mutual interest in debt conversion

Switzerland believes that apart from debt reschedulings and debt reductions such debt conversions may help the debtor countries in their way through economic adjustment. Creditor countries may prefer to receive a reduced cash counterpart of the claims today rather than maybe the nominal value over time. Therefore, debt conversion may be in the mutual interest of the debtor and creditor country.

III. Proposals for modification of the 10% clause

Switzerland favours the **opening up of the 10% clause**, according to the following approaches:

3.1. ODA-debt

- **ODA-debt** may be converted according to the present rules.

3.2. Officially supported export credits

a) unlimited opening of the clause for debt for development swaps

Swaps which are made to use the local counterpart funds in the context of development cooperation (with restrictive rules on the counterpart side whereby the national ECA and exporters sell their claims to their national government and the latter will use these claims for a debt for development swap) are currently done by Switzerland. The features of such swap operations are: first, a foreign exchange debt stock reduction of 100% is realized and second, even more important from the national economic standpoint, the conversion rate for establishing a counterpart fund in local currency is based on the relevant local macroeconomic environment. As an example, debt reduction agreements signed so far by Switzerland with 11 countries stipulate conversion rates ranging from 8% to 27% of the external debt cancelled. In two cases, the debt was cancelled with zero local counterpart funds.

b) limited opening of the clause if claims are sold to third parties.

If the claim of the national ECA and the exporter is sold to a **third party**, the economic impact of the debt reduction depends on the utilization of the the local counterpart funds. In the case of direct swaps into **equity** (for example in the frame work of a privatization process) no problems occur from the local currency side (i.e. inflation). On the other hand, a payout in **local currency** of e.g. 80% may be as high as to create economic distortions. The danger of round tripping and inflation exists. Often the debtor country is in a weak negotiating position and focuses for several reasons only on the reduction of debt. A further learning process on the side of debtor and creditor countries may be indicated to better understand the effects of conversion programs. Therefore for the present a limitation of the conversion rate to e.g. 50% of the outstanding stock of claims seems to be justified.

October 28, 1994

IMPROVEMENT IN THE DEBT TREATMENT OF THE POOREST AND MOST INDEBTED COUNTRIES

(new words in italics)

1/ Type of treatment

. stock treatment, which must be an exit rescheduling, will be implemented, on a case by case basis, for countries (i) having established a satisfactory track record with both the Paris Club and the IMF, with a possibility to implementing the stock approach a few months earlier than scheduled in the existing goodwill clauses (ii) for which there is sufficient confidence in their ability to respect the debt agreement (iii) for which there is a consensus among creditors to choose a concessional option *(DR, DSR, CMI)* ; [*it will be implemented at a 67 % level of concessionality, and in some cases at a 50% level, with consideration to some benchmarks measuring the level of poverty of the debtor country, its global indebtedness, and the structure of its debt (tentative list attached). A 80% level could be opened if there was a consensus among creditor countries, in exceptional cases.*]

. other countries : maturities approach,[*with a 67% level of concessionality* and in some cases a 50% level *with consideration to the same benchmarks.*]

2/ Scope of the improved treatments (stock and maturities)

. Debt previously treated under concessional terms (Toronto, Trinidad) can be included, on a case by case basis.

. ODA will be treated (as described hereafter).

. Cut-off dates should not be moved.

For stock of debt treatments :

. A de minimis threshold should be defined ; the appropriate level remains to be agreed upon (a note will be prepared by the Secretariat).

. The treatment of the maturities to fall due under non PRD commercial credits has to be defined (a note will be prepared by the Secretariat).

3/ Menu of options under the improved treatments

. the DR option should remain the same in terms of repayment and grace periods ; the DSR option repayment period will have to be lengthened to 33 years in order to achieve comparability of treatment (the present value of flows falling after 23 years will be calculated using a higher discount rate) ; *the revised "Capitalization of Moratorium Interest option" proposed by the Secretariat was adopted (table attached)* ;

. the options for concessional PRD will be designed so that the level of reduction achieved at the date of the agreement will be increased to the new level of reduction ; *the technical methodology proposed by the Secretariat was adopted (note attached ; a "user's guide" will be circulated together with a draft Agreed Minute in due course)* ;

[. the ODA option will include a lengthening of the repayment and grace periods to respectively 40 and 16 year ;]

. Moratorium interest due under a stock treatment in the early years will be higher than under a flow rescheduling ; therefore, case by case, on the basis of IMF projections, they can be rescheduled and repaid over the duration of the concessional options ; they may be cancelled at 67% (or 50%), the NPV effect of this cancellation being deducted from the global NPV debt reduction achieved by all creditors ; there is no consensus to add such cancellation to the debt reduction (note attached).

during the course of the discussion

. On the commercial option, 3 proposals were circulated (see attached) : one ~~proposed by the secretariat at the last September Methodology~~ session, one ~~proposed~~ by a creditor ~~country based upon~~ a 35 years repayment period (option "35 A"), ~~one proposed~~ by another creditor based upon an equalization of efforts in NPV (option "NPV").

a third

A fourth proposal was submitted by the Chairman, based upon a 40 years repayment period and successive periods of capitalization of interests.

Record Removal Notice

File Title	Barcode No.
Paris Club - 94-05 (Oct. 26-28, 1994 meeting)	1256733

Document Date	Document Type
26 October, 1994	Report

Correspondents / Participants

Subject / Title
Summaries of Paris Club Discussions

Exception(s)
Information Provided by Member Countries or Third Parties in Confidence

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

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POSSIBLE CANDIDATES TO AN IMPROVED MENU APPROACH

(Countries having benefited from a concessional treatment + possible "newcomers")

1993 REVENUE AND INDEBTEDNESS RATIOS

Possible newcomers are in italics ;

* indicates countries which have exited from the rescheduling process

	GNP/ Capita (1993)		ODA/pre COD debt (Paris Club)		Present value of Debt / Exports	
	1		2		3	
1	*Cambodia*	n.a.	*Angola*	n.a.	*Cambodia*	n.a.
2	*Liberia*	n.a.	*Burundi*	n.a.	Vietnam*	117
3	*Myanmar*	n.a.	*Cambodia*	n.a.	Burkina Faso	142
4	*Somalia*	n.a.	*Ghana**	n.a.	Benin	171
5	Zaire	n.a.	*Kenya**	n.a.	Senegal	200
6	*Angola*	n.a.	*Lao*	n.a.	*Ghana**	220
7	Mozambique	80	*Liberia*	n.a.	*Kenya**	237
8	Ethiopia	100	*Malawi*	n.a.	Chad	258
9	Tanzania	110	*Myanmar*	n.a.	Togo	274
10	Sierra Leone	140	*Rwanda*	n.a.	*Malawi*	283
11	Vietnam*	170	*Sao Tome*	n.a.	*Liberia*	291
12	*Burundi*	180	*Somalia*	n.a.	CAR	292
13	Uganda	190	*Sudan*	n.a.	Honduras	301
14	Chad	200	Ethiopia	56	Guinea	305
15	*Rwanda*	200	Vietnam*	52	Cameroon	311
16	*Malawi*	220	Honduras	49	*Angola*	324
17	Guinea-Bissau	220	Bolivia	45	Equatorial Guinea	326
18	Madagascar	240	Equatorial Guinea	31	Mali	331
19	Niger	270	Guinea	27	*Lao*	346
20	*Kenya**	270	Zambia	25	Mauritania	362
21	Guyana	280	Nicaragua	24	Niger	415
22	*Lao*	290	Cameroon	23	*Rwanda*	417
23	*Sudan*	300	Mali	22	Bolivia	429
24	Burkina Faso	300	Sierra Leone	21	Guyana	432
25	Mali	300	Mauritania	19	Ethiopia	435
26	Togo	330	Burkina Faso	18	Côte d'Ivoire	535
27	*Sao Tome*	350	Côte d'Ivoire	16	Zaire	545
28	Equatorial Guinea	360	Tanzania	16	Zambia	560
29	Nicaragua	360	Madagascar	15	*Myanmar*	563
30	Zambia	370	Zaire	13	*Burundi*	631
31	CAR	390	Senegal	11	Sierra Leone	699
32	Benin	420	Mozambique	5	Madagascar	750
33	*Ghana**	430	Benin	0	Uganda	796
34	Mauritania	510	CAR	0	Tanzania	901
35	Guinea	520	Chad	0	Guinea-Bissau	1145
36	Honduras	580	Guinea-Bissau	0	Mozambique	1203
37	Côte d'Ivoire	630	Guyana	0	*Sao Tome*	1482
38	Bolivia	710	Niger	0	Nicaragua	2494
39	Senegal	730	Togo	0	*Sudan*	3021
40	Cameroon	770	Uganda	0	*Somalia*	3852

Source : 1 & 3 World Bank, preliminary figures for World Debt Tables 1994-95

2 : Creditors figures